

Strengthening Social Security for the 21st Century

Recent Presidential Action

- **President Bush recently discussed the importance of Social Security and the need to fix the Social Security system for future generations of Americans.** The President is committed to keeping the promise of Social Security for today's retirees and those nearing retirement, guaranteeing no change for those born before 1950.
- **Doing nothing to fix our Social Security system would mean that our children and grandchildren would have to borrow an estimated \$10.4 trillion, according to the Social Security Trustees.** Each year we wait costs an additional \$600 billion, which will continue to rise. The longer we wait to take action, the more difficult and expensive the changes will be.
- In 2018, the government will begin to pay out more in Social Security benefits than it gets in revenue – and shortfalls then will grow larger with each passing year.
- By 2042, when workers in their mid-20s today begin to retire, the system will be bankrupt – unless we act now to save it.
- **As a result of these demographic changes, the current system will not be able to afford to pay the benefits scheduled for future generations without enormous payroll tax increases or huge benefit cuts.**

Background: Personal Retirement Accounts as Part of Comprehensive Reform

- **As President Bush said in his State of the Union address, he came to Washington to solve problems, not pass them on to future Presidents and future generations.** The President wants to permanently strengthen Social Security without raising payroll taxes and without changing Social Security for today's retirees and near-retirees.
- **The President favors voluntary personal accounts as part of a comprehensive solution to give younger workers the option to save some of their payroll taxes.**
- **Personal retirement accounts offer younger workers the opportunity to receive higher benefits than the current system can afford to pay, and build a “nest egg” for retirement that the government cannot take away.** Personal retirement accounts provide ownership and control, and can be passed on to loved ones.
- **Personal retirement accounts would start gradually.** Yearly contribution limits would be raised over time, eventually permitting all workers to set aside 4 percentage points of their payroll taxes in their accounts.
- **Personal retirement accounts would be voluntary.** Those who do not opt for a personal retirement account would continue to draw benefits from the traditional Social Security system, reformed to be permanently sustainable. The system of **personal retirement accounts would be similar to the Federal employee retirement program, known as the Thrift Savings Plan (TSP).** Contributions would be collected and records maintained by a central administrator.

- **Personal retirement accounts would be invested in a mix of conservative bond and stock funds.** Workers would be permitted to allocate their personal retirement account contributions among a small number of very broadly diversified index funds patterned after the current TSP funds.
- **Personal retirement accounts would be protected from sudden market swings on the eve of retirement.** To protect workers as they near retirement, personal retirement accounts would be automatically invested in the “life cycle portfolio” when a worker reaches age 47, unless the worker and his or her spouse specifically opted out by signing a waiver form stating they are aware of the risks involved. The life cycle portfolio would gradually shift the allocation of investments as the individual neared retirement so that it was weighted more heavily toward low-risk bonds.
- **Personal retirement accounts would not be eaten up by hidden Wall Street fees.** Personal retirement accounts would be low-cost. Most of the administrative fees, estimated at 30 basis points, would be for recordkeeping, which would be done by the government, not investment management done by Wall Street.
- **Personal retirement accounts would not be accessible prior to retirement.** Account holders would not be allowed to make withdrawals from, take loans from, or borrow against their accounts prior to retirement.
- **Personal retirement accounts could not be emptied out all at once, but rather would be paid out over time, as an addition to traditional Social Security benefits.** Security procedures would be established to govern how account balances would be withdrawn at retirement.
- **Personal retirement accounts would be phased in.** To ease the transition to a personal retirement account system, participation would be phased in over three years according to the age of the worker.
- **To ensure its long-term future, Social Security needs to be fixed soon.** President Bush has pledged to work with Congress to find the most effective combination of reforms. He believes we must move ahead with reform on a bipartisan basis, because our children’s retirement security is more important than partisan politics.